

APPENDIX 7-A

**Memorandum of Understanding Between MWDOC and IEUA for Exchange of MWD Drought
Allocation**

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Between MWDOC and IEUA
For Exchange of MWD Drought Allocation**

WHEREAS, Inland Empire Utilities Agency (IEUA) and Municipal Water District of Orange County (MWDOC) are member public agencies of the Metropolitan Water District of Southern California (MWD); and

WHEREAS, Cucamonga County Water District (CCWD) is a retail agency member of IEUA, and Santa Margarita Water District (SMWD) is a retail agency member of MWDOC; and

WHEREAS, SMWD and CCWD have entered into an option agreement enabling the parties to enter into a water supply contract (CCWD/SMWD Agreement) whereby CCWD will voluntarily reduce its imported water use during a shortage period at times when MWD does not have sufficient firm water to serve all firm water demands if SMWD exercises its right to call the water; and

WHEREAS, in consideration for payment under the terms of the CCWD/SMWD Agreement, CCWD intends to make excess shortage allocation created through this reduction in imported water demand available to SMWD through an exchange arrangement involving IEUA and MWDOC; and

WHEREAS, IEUA, CCWD and Orange County Water District (OCWD), among other parties, have entered into "Santa Ana River And Chino Basin Water Right Accord" dated September 15, 2000, which includes, among other things, an acknowledgement of rights by OCWD that certain parties, including CCWD, have rights to use, re-use, recycle, store, recapture and/or export non-native water which Chino Basin parties have imported, and contract with third parties to exercise such rights; and

WHEREAS, the Metropolitan Water District of Southern California (MWD) is the regional supplier of supplemental imported water to both IEUA and MWDOC; and

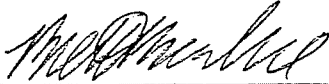
WHEREAS, during shortage situations in the past, MWD has established allocation targets to effect the reduction of firm water deliveries to its agencies; and

THEREFORE, the IEUA and MWDOC agree to the following Memorandum of Understanding for the exchange of whatever water allocation may be accorded by MWD during an MWD shortage condition.

IEUA and MWDOC agree to exchange water called under the CCWD/SMWD agreement subject to the following principles:

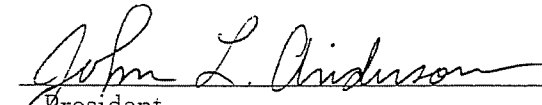
1. Exchange would occur in a year when MWD is in a shortage allocation mode of operation in which IEUA and MWDOC receive less than the full amount of requested water.
2. IEUA and MWDOC will confer with SMWD and CCWD to determine the amount of water called under the CCWD/SMWD Agreement as well as the actual amount of reduction in imported water use by CCWD below its individual MWD firm water allocation from IEUA. The lower of these two quantities of water (if different) shall be termed the "IEUA/MWDOC Allocation Exchange Amount".
3. IEUA and MWDOC will report this "IEUA/MWDOC Allocation Exchange Amount" to MWD and will request that MWD deliver this Allocation Exchange Amount to MWDOC instead of IEUA.
4. MWDOC and IEUA will work together to secure MWD recognition of this drought allocation exchange between IEUA and MWDOC,
5. If MWD fails to recognize the exchange of drought allocation, or in some way reduces the quantity of water exchanged in its allocation methodology, then MWDOC and IEUA shall each hold the other harmless.
6. Exchange of water pursuant to the CCWD/SMWD Agreement shall not result in reduced water reliability for other MWDOC or IEUA member agencies, however, the other member agencies are not third-party beneficiaries to the CCWD/SMWD Agreement to the extent they have not invested in or otherwise compensated CCWD and SMWD with respect to the CCWD/SMWD Agreement.
7. Exchange of water pursuant to the CCWD/CCWD Agreement may be subject to MWDOC/IEUA charges for the purpose of revenue neutrality, with the amount of any charge to be determined at such time as SMWD may call for the exchange of water.
8. The understandings herein are for purposes of MWDOC and IEUA recognizing and implementing the exchange of water pursuant to the CCWD/SMWD Agreement to the extent of the amount of imported water that may be allocated to each by MWD at such time as SMWD may call for the exchange of water, however, MWDOC and IEUA make no warranties with respect to MWD's water shortage allocation policies or procedures.
9. The commitments of the Parties under this MOU shall be subject to SMWD and CCWD agreeing to hold MWDOC and IEUA harmless from any claims arising from failure to make the exchange contemplated herein due to refusal of Metropolitan to agree to the reallocation of water between MWDOC and IEUA in accordance with the CCWD/SMWD Agreement.

MUNICIPAL WATER DISTRICT OF
ORANGE COUNTY




President

INLAND EMPIRE UTILITIES AGENCY



President



General Manager



Chief Executive Officer

November 19, 2003